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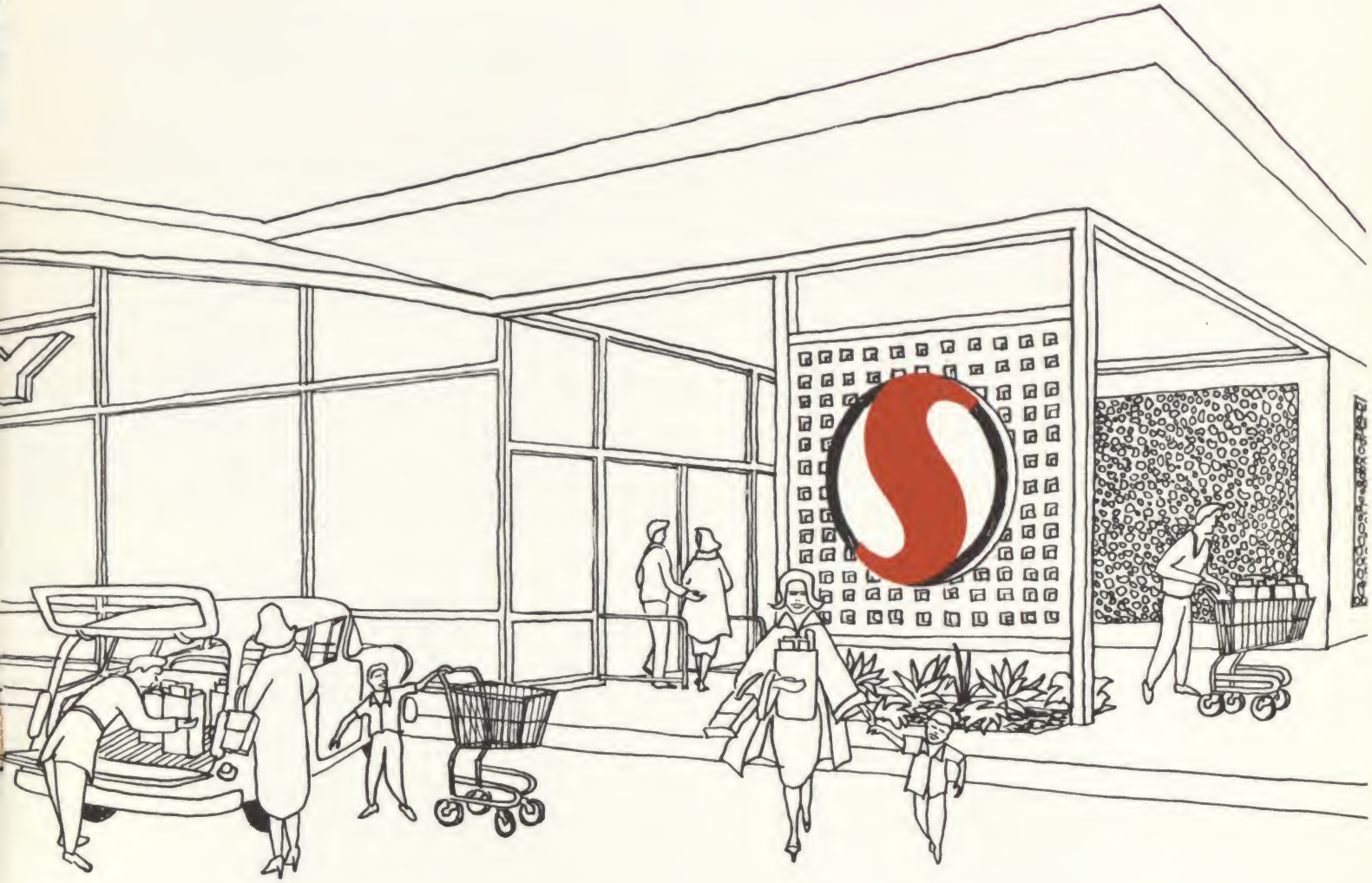
1962
ANNUAL REPORT



SAFEWAY STORES, INCORPORATED

SAFEWAY FINANCIAL HIGHLIGHTS

	1962
OPERATING RESULTS [1]	
Sales	$2,509,644
Income before provision for income taxes	83,326
Provision for income taxes	44,055
Net income	39,271
Net income as a percent of sales	1.56%
DISTRIBUTION OF EARNINGS [1]	
Dividends to preferred stockholders	$ 903
Dividends to common stockholders	20,052
Earnings retained in the business	18,316
PER SHARE OF COMMON STOCK	
Net earnings	$ 3.06
Dividends paid	1.60
Working capital	9.40
Book value	21.56
Price range New York Stock Exchange—Low-High	36¼-60⅜
FINANCIAL POSITION (at end of year)	
Working capital [1]	$ 117,902
Current assets per dollar of current liabilities	1.81
Equity of common stockholders [1]	270,298
OTHER STATISTICS	
Number of employees (at end of year)	63,120
Approximate number of stockholders of record (at end of year)	59,900
Number of stores (at end of year)	2,069
Average annual sales per store [1]	$ 1,183
SOURCE AND USE OF FUNDS [1]	
FUNDS PROVIDED FROM:	
Net income	$ 39,271
Charges to income not requiring funds:	
Depreciation provision	30,970
Deferred income taxes	1,300
Provisions for self insurance and decline in conversion value of Canadian assets	1,799
Decrease in working capital	6,184
Total	$ 79,524
FUNDS USED FOR:	
Dividends to Company stockholders	$ 20,955
Retirement of and from sale of capital stock (net)	1,707
Additions to fixed assets (net)	46,658
Reduction in long term debt	6,480
Increase in other assets	3,724
Total	$ 79,524

AND TEN-YEAR SUMMARY

1961	1960	1959 (53 Weeks)	1958	1957	1956	1955	1954	1953 (53 Weeks)
2,538,032	2,468,973	2,383,011	2,225,352	2,117,314	1,989,305	1,932,243	1,813,517	1,751,820
78,587	75,178	76,511	69,874	65,018	53,361	27,330	28,831	29,620
41,985	40,360	40,810	36,468	34,111	27,955	13,708	14,847	15,075
36,602	34,818	35,701	33,406	30,907	25,406	13,622	13,984	14,545
1.44	1.41	1.50	1.50	1.46	1.28	.70	.77	.83
1,021	1,082	1,130	1,197	1,392	1,941	2,272	1,915	1,914
19,045	17,676	15,415	13,461	10,767	8,819	8,386	8,336	7,091
16,536	16,060	19,156	18,748	18,748	14,646	2,964	3,733	5,540
2.85	2.72	2.80	2.63	2.48	2.14	1.08	1.17	1.44
1.52½	1.42½	1.25	1.10	.90	.80	.80	.80	.80
9.91	8.68	9.17	8.64	9.33	9.20	9.10	11.29	9.81
20.08	18.71	17.40	15.52	14.30	12.63	11.02	10.77	10.41
36⅝-63¾	32½-40½	34⅝-42¼	24½-41¾	20¼-27½	16⅞-23⅞	14⅛-19⅜	12¾-15¾	10⅞-13⅜
124,085	108,611	113,285	106,173	113,347	105,964	95,585	117,889	91,381
1.89	1.78	1.86	1.81	1.90	1.80	1.57	1.95	1.64
251,326	232,606	215,080	190,871	173,688	145,513	115,681	112,458	96,990
60,896	63,507	63,149	59,555	57,356	54,949	54,257	49,887	46,836
58,600	59,000	59,000	54,917	43,224	39,316	39,315	38,253	35,416
2,054	2,207	2,164	2,117	2,033	1,981	1,988	1,998	2,037
1,131	1,101	1,088	1,050	1,029	976	951	877	825
36,602	34,818	35,701	33,406					
31,435	29,177	27,805	25,270					
540	—	—	—					
700	—	—	—					
(15,474)	4,674	(7,112)	7,175					
53,803	68,669	56,394	65,851					
20,066	18,758	12,569	18,635					
294	13	(274)	403					
28,126	43,525	36,833	38,762					
6,031	7,445	7,021	8,483					
(714)	(1,072)	245	(432)					
53,803	68,669	56,394	65,851					

Note:
(1) In thousands of dollars.

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SAFEWAY STORES, INCORPORATED

EXECUTIVE OFFICES
Fourth and Jackson Streets, Oakland, California

TRANSFER AGENTS
The Chase Manhattan Bank, New York, New York and the Crocker-Anglo National Bank, San Francisco, California

REGISTRARS
First National City Bank, New York, New York and The Bank of California, National Association, San Francisco, California

ACCOUNTANTS
Peat, Marwick, Mitchell & Co.

ANNUAL MEETING The 1963 Annual Meeting of the Common Stockholders will be held on May 21, 1963. In connection with this meeting, proxies will be solicited by the management. A notice of the meeting, together with a proxy statement and a form of proxy, will be mailed separately to Common Stockholders about April 12, 1963. This Annual Report does not constitute part of the proxy soliciting material.

Directors

ROBERT A. MAGOWAN
Chairman of the Board

J. G. BOSWELL, II
President
The J. G. Boswell Company

GEORGE T. BURROUGHS
Vice President

NORMAN CHANDLER
Chairman of the Board & President
The Times-Mirror Company

HENRY B. CLAY
Senior Vice President

CHARLES DE BRETTEVILLE
President
The Bank of California, N.A.

HUGH FROST
Vice President

ARTEMUS L. GATES
Consultant

A. RUSSELL GRIFFITH
Vice President and Controller

JOSEPH M. LONG
President
Longs Drug Stores, Inc.

MICHAEL W. MCCARTHY
Chairman of the Board
Merrill Lynch, Pierce, Fenner & Smith, Inc.

WILLIAM S. MITCHELL
Senior Vice President

MILTON L. SELBY
Consultant to the Company

JACK I. STRAUS
Chairman of the Board
R. H. Macy & Co., Inc.

BRAYTON WILBUR
Chairman of the Board
Wilbur-Ellis Company

Executive Committee

ROBERT A. MAGOWAN
Chairman

CHARLES DE BRETTEVILLE

JOSEPH M. LONG

MILTON L. SELBY

BRAYTON WILBUR

Officers

ROBERT A. MAGOWAN
President and Chairman of the Board of Directors

HENRY B. CLAY
Senior Vice President
Regional Retail Manager

WILLIAM S. MITCHELL
Senior Vice President
Supply Operations

GEORGE T. BURROUGHS
Vice President
Real Estate and Construction

HUGH FROST
Vice President
Advertising, Personnel, Research

A. RUSSELL GRIFFITH
Vice President and Controller
Accounting and Finance

J. A. ANDERSON
Vice President
Washington, D.C. Division Manager

R. L. CAMPELL
Vice President
Regional and Denver Division Manager

J. L. HEATHCOTE
Vice President
Seattle Division Manager

D. B. KANE
Vice President
Los Angeles Division Manager

QUENTIN REYNOLDS
Vice President
Regional and San Francisco Division Manager

GLYNN E. TUCKER
Vice President
Non-Foods Division Manager

J. W. RUPLEY
Treasurer

DRUMMOND WILDE
Secretary and Vice President
General Counsel

To Safeway Stockholders and Safeway People:

I am pleased to report that 1962 was another successful year in sales and profits and in strengthening the company for future progress. Dollar results are highlighted in the 10-year summary on the preceding pages and discussed in the Financial Summary which starts on page 12. Operating activities are summarized on the following pages.

Total company sales for 1962 were slightly lower than the year before because of the sale of our former New York Division in October 1961. However, sales in the areas where we operated the full 12 months of both years did set a new record. For the year, food prices averaged less than one per cent higher than in 1961 so the effect of price changes on dollar sales was negligible. The increase came from more purchases by the more than 6 million families who shop in Safeway stores every week.

Profits were higher than ever before. They reflect, in part, improvements in operating efficiency that were effected during the year. The ability of the Safeway organization to meet the problem of increasing costs is reassuring for the future.

The so-called evolution in food retailing, which has brought on discount houses selling food, grocery stores selling more non-foods, and variations such as grocery stores that advertise "discount prices," continued during the year. Our close study of all these developments included the questions of which direction we should go—what kind of stores we should operate. We decided to continue to put our major emphasis on food and to operate the kind of stores women prefer for food. Women have very definite reasons for preferring one food store to another that provide guides for operating decisions. We believe the sales results last year, when there was a wider choice than ever before in kinds of stores for food shopping, indicate that we made the right decision.

In making that decision, however, we have not overlooked the sales and profit potentials in non-foods stores. Steps that have been taken to enter this field are discussed in the Operations Summary. I believe they will prove to be an important part of strengthening Safeway for the future.

A year ago we reported our decision to operate stores in Great Britain and to investigate the possibilities of expanding to new areas in other countries. Today we are associated in the operation of 11 stores in London and expect to acquire 3 in Australia. These are just the beginnings of an international operation but hold the promise of becoming important to the future growth of the company.

I believe we are in a better position now than ever before to cope with the problems inherent in this very competitive business and to take advantage of our opportunities. Population increases alone assure growth of the food industry and the largest increases are predicted for and occurring in areas where we have stores. Generally stable economic conditions and higher personal incomes that are forecast for this year will stimulate further increases in standards of eating and result in more dollars being spent for food.

I expect 1963 to be another very successful year for Safeway.

Robert A. Magowan

March 15, 1963
Oakland, California

President and Chairman of the Board of Directors

1962 OPERATIONS SUMMARY

Sales

In the areas where we operated the full 12 months of both years, 1962 sales of a little more than 2½ billion dollars were about 4 per cent higher than 1961 sales. Early in the year the Retail Divisions were grouped territorially into regions and regional managers were appointed. All of the regions showed increases.

More progress was made in our efforts to broaden the appeal of shopping at Safeway. These efforts, referred to in the 1961 report, are aimed at building a reputation in other departments comparable to the reputation for fine meat that Safeway has had for many years. One result last year was the development of a program to offer our customers a much wider variety of imported cheeses. The program was an immediate success. Sales have exceeded expectations.

Increased sales are the end result of satisfying customers but the starting point is a homemaker's decision to shop at Safeway. That decision hinges on the effectiveness of our bid for her business through advertising and in other ways. Every week presents a new question of what will be most effective and using the right answer is the key to success.

Research that will help to point out the right answer has become an important part of our sales work. It includes getting a better understanding of considerations that are most important to homemakers in making their shopping decisions, reasons for weekly fluctuations in sales, and analysis of the results of what has been done. Progress that has been made in pinpointing cause and effect is helping to make sales planning more effective.

Stores

During 1962, we opened 121 new stores and closed 106. As of December 31, 1962 we had 2069 stores in operation in the United States and Canada. 63% of the stores in operation are less than ten years old.

Our fourth Alaska store was opened in Anchorage on November 7th. We now have three stores in Anchorage and one in Fairbanks—evidence of the very favorable customer acceptance of Safeway in Alaska.

Construction was started on our first store in Hawaii. Located near downtown Honolulu, the store will have a total floor area of 43,000 square feet including a basement for storage, and a 1,500 square foot mezzanine. Opening is scheduled for May of this year.

The trend toward larger stores that was mentioned in last year's report, continued during 1962. Average size of the new 1962 stores was 18,770 square feet, which was an increase of about 500 square feet over the average in 1961. Length of time from start of construction to a store's opening day, barring strikes or other unforeseen delays, is 165 days.

During the past seven years the building cost index has increased 21% but we have been able to reduce the cost of constructing our stores 23.6%. This, we believe, is one of the best, if not the best, cost construction records in the retail food field.

The reduction has been achieved by giving concentrated attention to details. This included obtaining more complete plans and specifications from top-notch architects, assigning projects only to competent contractors, avoiding unnecessary frills or accessories in the

Near downtown Honolulu, fringed with coconut palms, groundbreaking for 43,000 sq. ft. store began last August, due to open in May. This is first of several planned for the 50th state. Stores in Hawaii will operate under the San Francisco Division.

building, and a complete exchange between Retail Divisions of cost-saving ideas resulting from store construction experiences.

Selecting a new store site is a very carefully calculated procedure. Tentative sites are selected by the Retail Divisions where the search for new locations is going on constantly. All possible locations for a profitable store are covered, including: new residential areas; older built-up areas not being served by a modern store; and areas where residential growth has not yet started but where it is expected because of city planning, future highway construction, location of a new industrial plant, etc.

Local judgment is supplemented with studies by our own market research people of all the factors that experience has shown can affect sales of a proposed store. These include considerations such as traffic flow, size of the area from which the store can be expected to draw customers, density and income characteristics of the population in that area, etc. Results of their studies then are rechecked with the Retail Division to be as sure as possible no consideration has been overlooked or incorrectly evaluated. Finally, an estimate of sales and a projection of profits are made from all available facts and the proposed site is approved or rejected.

Over the years, forecasting techniques have been sharpened and improved as each new store opening provides another check of the estimate with actual results. Nevertheless, there is still no absolute assurance that every new store will be an immediate success. People are not completely predictable and sometimes shopping habits, like other habits, are hard to change. When a new store does not live up to expectations, further studies are made to find out why, and a program is started to correct the reasons uncovered by the studies.

Improvements, of course, are an important part of our new store program. They fall into two broad classifications: one, ways to reduce store operating costs by developing better methods for merchandise handling and the other tasks involved in operating a store; and, two, increasing the appeal of shopping at Safeway with more attractive stores, better displays that make shopping easier, improved fixtures that give better protection to perishable merchandise, and new departments. Some of these 1962 developments are illustrated on this page.

To customers, a Safeway store is much more than physical facilities—a building and fixtures. It becomes a very personal part of their homemaking activities. This is reflected in part by the way women refer to the Safeway store where they trade as "my Safeway." An experience we had in Alexandria, Virginia last year illustrates how deep the personal feeling toward a Safeway store can be.

A store we had operated there for some years finally proved inadequate for our standards, and not being able to relocate in a suitable site, we decided to close it. What followed this decision is almost unbelievable.

Immediately, a storm of protest was raised by groups of customers. Learning that we had been unable to secure a desirable location, due to zoning restrictions, a group of them went to work circulating petitions to keep Safeway in that area and to have property for a store site rezoned. (See picture on page 7).

They succeeded in getting the parcel of land rezoned and not only were we persuaded to stay but we also called on them to tell us what features they desired in "their" new store. They stipulated a few musts—a coffee bar, colonial type chandeliers in the lobby—and curtains on the windows! Again they succeeded, but this time

Added eye-appeal is given to the frozen foods section of new Millbrae (Calif.) store by the curved canopy above.

A service delicatessen, offering wide range of treats, is a new and popular department featured in the Millbrae store.

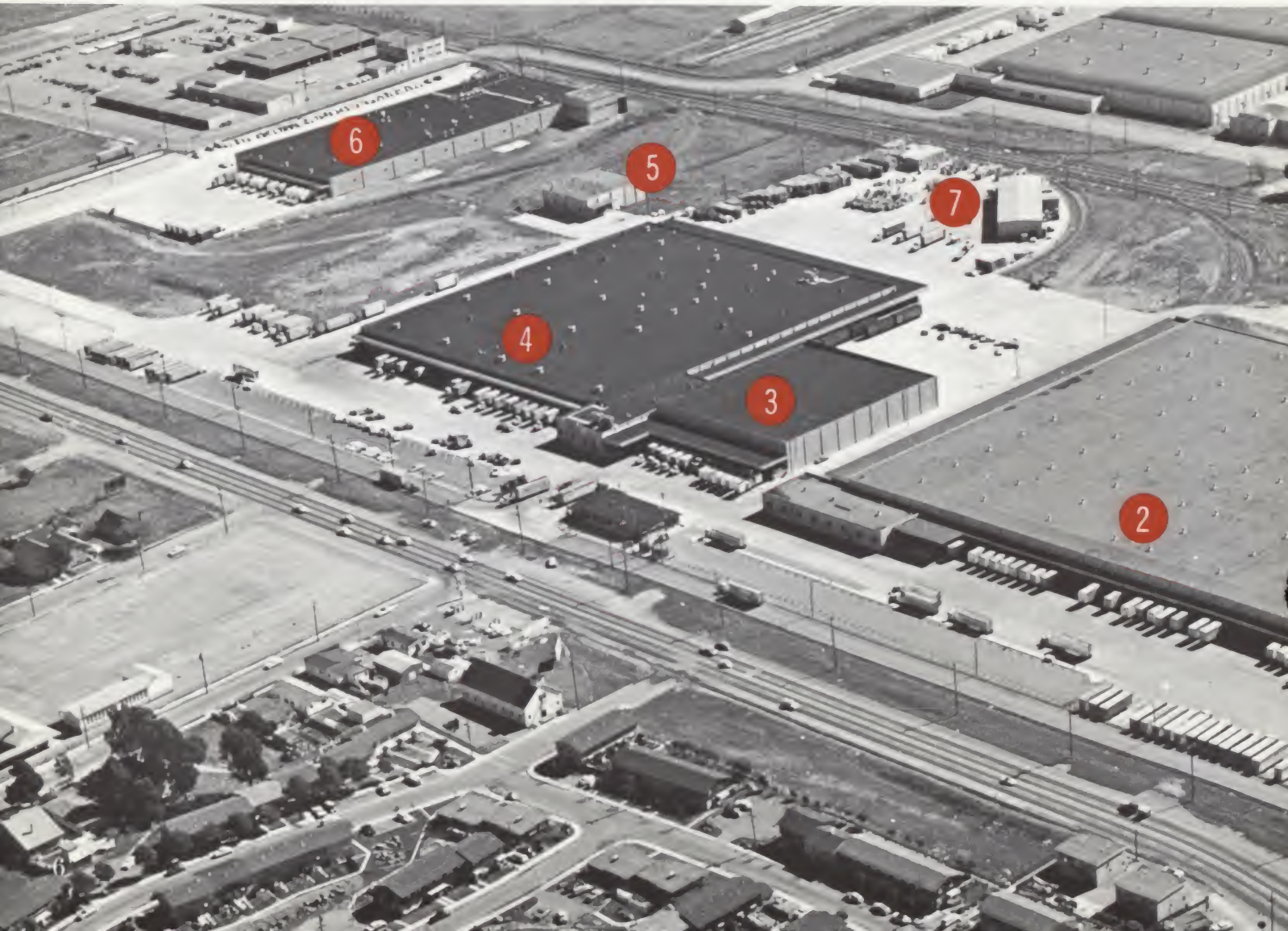
without opposition, and today our new store is being rewarded with sales above expectations. But the greatest reward, by far, was the friendly, heart-warming action taken by those homemakers on behalf of Safeway.

In previous reports, we have mentioned that we try to be a good neighbor wherever we operate. In some instances, this has involved altering our basic store designs to fit in with some particular architectural motif established by a community. Another way to be a good neighbor is illustrated by our new store in San Leandro, California.

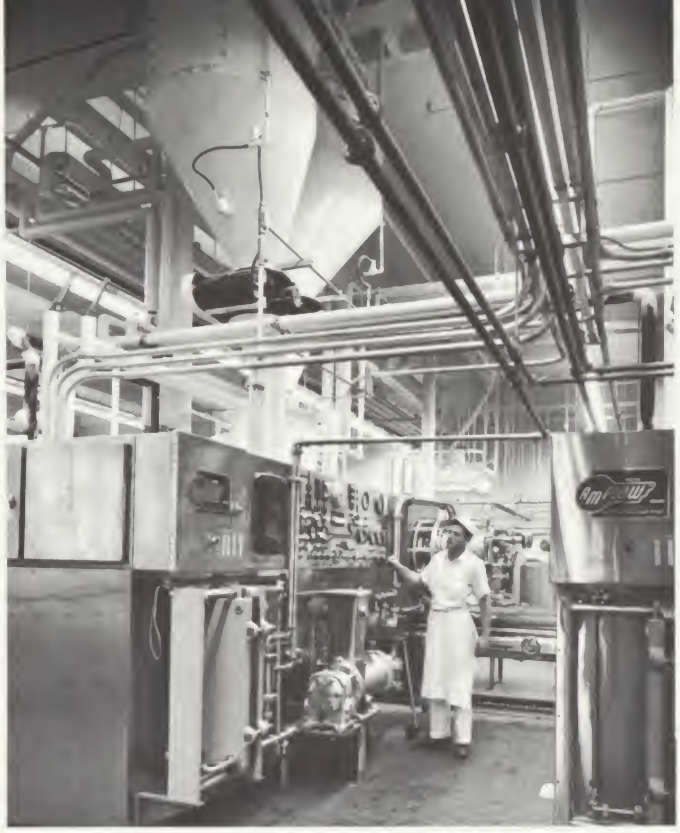
This city of 70,000 population, in the metropolitan East Bay area, has embarked on a unique program of revitalizing its downtown business area, financing the redevelopment on a do it yourself basis, and spurning Federal aid. One phase of the program involved a section of property which the city determined could be developed into an ultra-modern shopping center with a mall and patios. To kick off the project and stimulate interest of business investors, the directors of the program hoped they might induce some prominent and reputable business to locate in the area.

We have had stores in San Leandro for many years along with other chains and aggressive independents. However, foreseeing the need for a food store to serve shoppers who will be attracted to the center, and an opportunity to take an active part in the city's bootstrap program, we decided to build a new store in the redevelopment area. The news of our decision was welcomed with considerable elation. The city's gratification was evidenced in a special citation presented to Safeway by the City Council and civic dignitaries at the opening of our new store last November.

Pulse of modern food logistics is found in this huge distribution center in Richmond, California, viewed from helicopter. Buildings numbered are: (1) truck repair shop and fuel island, (2) grocery warehouse, (3) frozen foods warehouse, (4) produce warehouse, and pre-packaging plant, (5) cheese packaging plant, (6) bakery, and (7) salvage and crate yard.



Height of good will was reached in Alexandria, Va., when housewives circulated petitions to "save" Safeway (see text).



Pressing a button in new bakery (Richmond, California) starts automated bread maker from dough-mix to ovens.

Distribution Centers

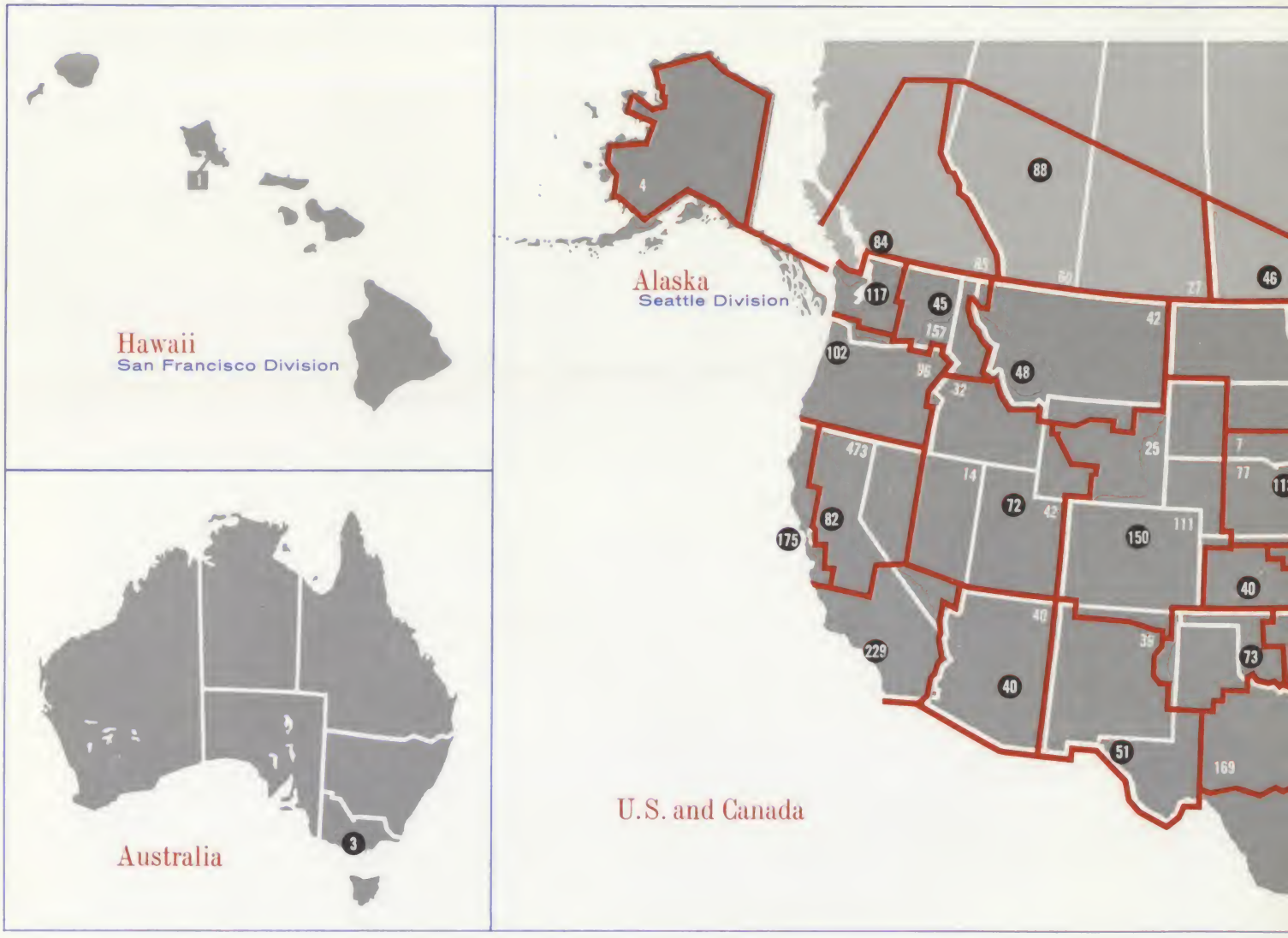
A new distribution center with a total floor area of 342,600 square feet was opened to service our Tulsa Division. Now all but four of our 22 retail divisions have distribution centers in varying stages of development. In a completed center the various types of products required by the stores – produce, meats, frozen foods, groceries, etc., – are selected, assembled and shipped from one centralized point, saving both time and cost in handling and delivery to the stores. The Tulsa center now includes facilities for groceries, frozen foods, milk products and produce.

At several of the existing distribution centers, improvements and additions were made during 1962. Major additions took place in Richmond, California, site of the San Francisco Division center. New buildings, added to the existing grocery warehouse and truck repair facilities, included warehouses for produce, frozen foods, some milk products, and facilities for salvaging shipping cartons and cases. This huge distribution center, one of the Company's largest, supplies all of our stores in Northern California and part of Nevada.

Increased volume of merchandise moved through the stores required the addition of some 91,000 square

SAFEWAY TODAY

Map below shows the widespread regions of Safeway's present and future operations. Numerals within circles indicate the number of stores in each Retail Division and correspond with those preceding the listing of each Di-



QUENTIN REYNOLDS
Regional Manager

- 45 L. M. PRINGLE — Spokane Division
- 117 J. L. HEATHCOTE — Seattle Division
- 102 GUS PARKER — Portland Division
- 175 QUENTIN REYNOLDS — San Francisco Division
- 82 K. W. HUNTINGTON — Sacramento Division

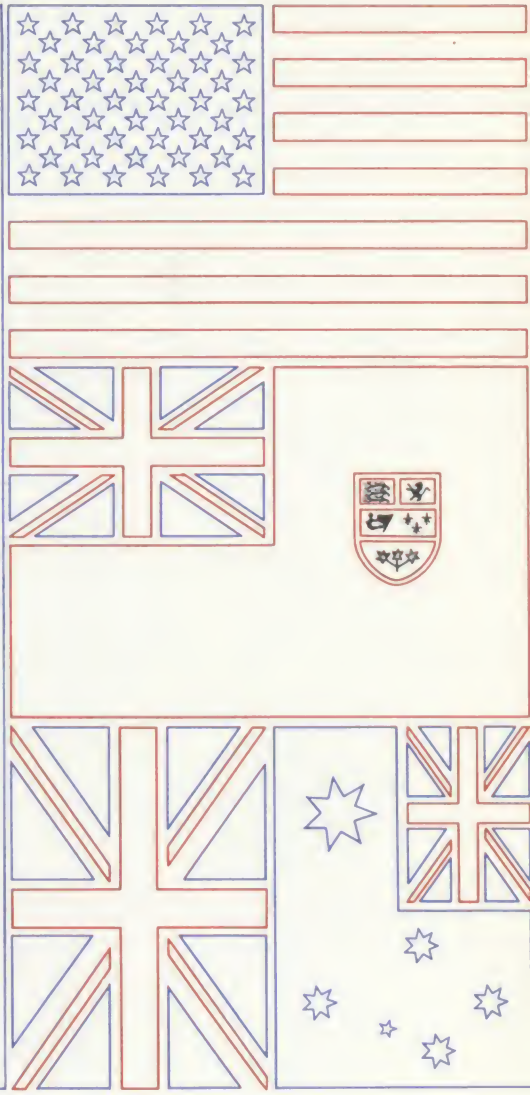
HENRY CLAY
Regional Manager

- 44 H. A. JUSTICE — Little Rock Division
- 44 FRED E. ROWLAND — Tulsa Division
- 73 R. E. TEMPLEMAN — Oklahoma City Division
- 130 C. A. BRADBURN — Dallas Division
- 51 C. C. FOSTER — El Paso Division
- 229 D. B. KANE — Los Angeles Division

R. L. CAMPBELL
Regional Manager

- 113 PAUL K. HENDRIX — Omaha Division
- 83 J. M. TUDOR — Kansas City Division
- 40 FRANK J. GLASGOW — Wichita Division
- 150 R. L. CAMPBELL — Denver Division
- 72 W. E. WILLIAMS — Salt Lake City Division
- 40 HENRY J. FRANK — Phoenix Division

vision Manager, below. The figures not encircled are the number of stores within each state and Canadian province—a total of 2,084 stores—including England and three to be acquired in Australia. Early in the year, as pointed out in the text, United States and Canadian Retail Divisions were grouped into Regions (excepting Wash., D. C.) and Regional Managers were appointed. This organization setup is shown below the map.



W. A. Hembroff
Regional Manager

46 W. F. Griffiths
Winnipeg Division

88 Walter A. Hembroff
Alberta Division

84 W. J. Kraft
Vancouver Division

48 W. E. Murray
Butte Division

214 J. A. Anderson
Washington, D.C., Division

11 Basil Winstead
United Kingdom Division

3 George E. Rudolph
Australian Division

feet of space to the grocery warehouse for our Washington, D.C. Division which is located at Landover, Maryland. This huge center, its series of buildings comprising some 827,000 square feet, is at present our largest.

Plants

Because of the important savings our Safeway Brands offer, more customers try them every year, discover that they are fine quality products and come back to buy them again. They are one of the strong appeals for shopping at Safeway and make an important contribution to the overall profits of the company.

Many of the Safeway Brands are produced or processed in our own plants. Others are manufactured and packaged for us to our specifications. Operation of our own plants involves a continuous program of plant modernization to meet the increasing demand and to assure the quality needed to guarantee customer satisfaction. During the year three new plants were completed; a bakery at the Richmond, California distribution center, a milk plant at the Landover, Maryland center, and an ice cream plant in Oklahoma City. Each is the most modern plant of its kind.

Typical of their "last word" features is the continuous flow bread making equipment in the new bakery. Virtually, with only a touch of a button, an operator sets in motion the processes which select, blend, mix, regulate fermentation, pour, and bake the finished product. (See photo on page 7.) In addition to saving time and labor this equipment provides controls that assure consistent quality.

Non-Foods Division

In August a new division was formed to operate non-foods stores. Purpose is to develop the sales and profit potentials in non-foods disclosed by numerous studies. They will be a new type of store for us and will supplement Safeway stores where food receives and will continue to receive the primary emphasis. In effect, operation of these new stores is a diversification of our activities.

The new stores will have a different name – Super S. Some of them will be in separate buildings adjacent to existing Safeway stores. Others will be in the same building sharing a common lobby but the Safeway and Super S stores will function as separate businesses. We expect to open five of the new stores during 1963 with the first one scheduled for opening in March in Anchorage, Alaska.

A new organization of people specially trained in non-foods operations will operate our new non-foods stores. It is headed by Mr. Glynn E. Tucker, who rejoined Safeway as a vice president after 25 years of non-food store operating and management experience.

International

A year ago we reported the decision to operate stores in Great Britain and the formation of a British subsidiary, Safeway Food Stores Limited. On September 30th we were in business in London.

At that time, after several months of negotiations, agreement was reached on an association with John Gardner (London) Limited which operates a number

One of 11 stores involved in our United Kingdom venture is this Gardner store opened in 1961 in Chelsea; has 13,500 square feet. Three Safeway Stores are scheduled to open this year.

of substantial business enterprises in the United Kingdom, one of which has been supermarkets—some being the largest and most modern in England.

Under the terms of the association, Safeway Food Stores Limited in England is one-third owned by John Gardner (London) Limited, two-thirds by Safeway, and becomes the parent company of the two food retailing subsidiaries, John Gardner (Super Markets) Limited and Prideaux's (London) Limited, that operate 11 stores and 2 warehouses. The names Gardner and Prideaux are being continued on existing operations. Two of the stores are pictured on these pages. The first store under the Safeway name is scheduled to open in June of this year.

In Australia we have entered into an agreement to acquire the controlling interest in the Pratt's Supermarket chain which operates stores in Frankston, Morningston and Chelsea, suburbs of Melbourne. For this operation a new subsidiary, Safeway Stores, Pty. Ltd. has been formed. Stores will be operated under the Pratt name. This latest international move is just getting under way.

Now that our operations abroad actually have started we are moving ahead with plans for developing them. Basically this involves using the same research, operating and other methods that have proven successful in the United States and Canada with whatever adaptations are necessary for differing local conditions. We are learning what those differences are by having men from here work with our new associates in England and Australia. Conversely our new associates are learning how Safeway operates by participating in our Executive Development Programs at the Administrative Office in Oakland. A thorough factual understanding of what is needed and how talents and experiences can be combined to meet that need are the first steps in building for the future.

Electronic Data Processing

Further progress has been made in utilizing the many advantages of electronic data processing. During the year electronic data processing offices were established in Oakland, Denver and Omaha and operations in the Los Angeles and Seattle offices that had been established in 1961 were improved with new equipment.

These amazing electronic units are now used to: print the dividend drafts received by Safeway's 60,000 stockholders; convert store merchandise orders into warehouse selection lists; tally merchandise movement for reordering and inventory control; compute and write payrolls; and prepare reports for management. Additional indicated uses are under study.

People

In the final analysis the record of Safeway progress is a record of the calibre of Safeway people. In this fast moving, highly competitive business every day brings new challenges and new problems, many of them unexpected. Year after year Safeway people have demonstrated that they have the ability and determination to meet those challenges and find the answers to whatever problems they may face.

During the year a request was made for a little extra

This Prideaux unit, now a part of Safeway Food Stores Limited, is in Croydon in heart of popular outdoor public market. Our ventures in England and Australia followed months of research abroad.

effort to reduce expenses by improving the efficiency of our operations. The ideas and suggestions that came back added up to several million dollars in savings. This is but one example of the spirit in our organization that has kept Safeway moving ahead.

It is our policy to promote from within the company, and the search for ability to take on added responsibilities is going on continuously. Training programs to help Safeway people on their present jobs and to help them prepare for advancement are one of our most important activities. An example is our Executive Development Program. Candidates are selected and brought to Oakland for seven weeks of intensive instruction. This year we are increasing the number of sessions from two to three.

For the future we must also add new young people with executive potential and we are always on the lookout for them. If you know of such a person who is looking for a career in an exciting business with great opportunities to experience the thrills, satisfaction, and financial rewards of achievement, may we suggest that you ask, "Have you considered Safeway?"

1962 FINANCIAL SUMMARY

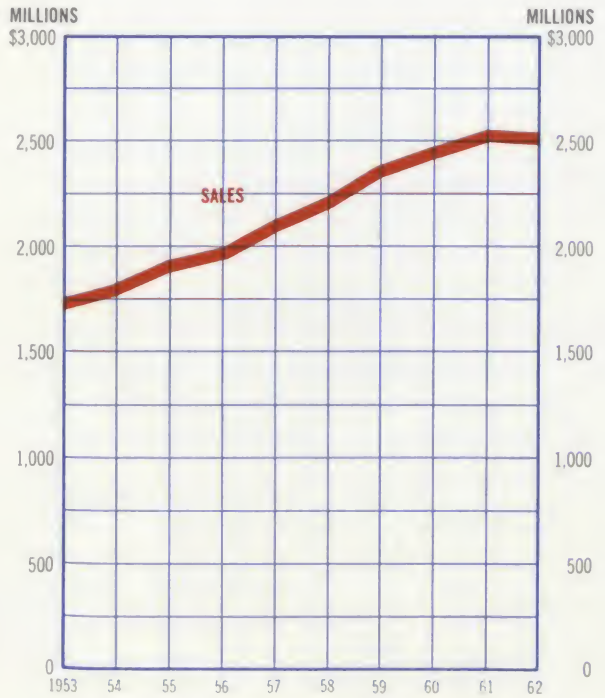
Sales

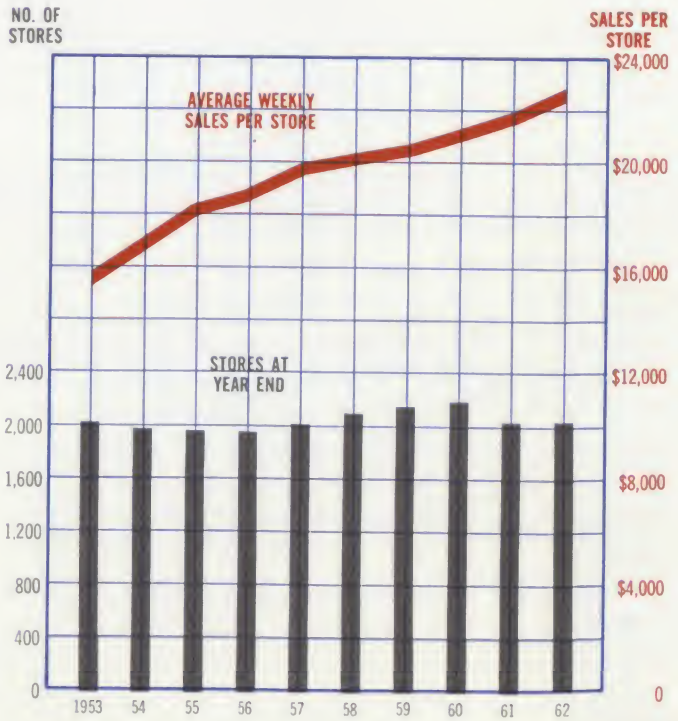
In 1962 sales exceeded $2½ billion for the second consecutive year.

1962 sales of $2.510 billion were 1% less than the record high of $2.538 billion reached in 1961. Sales of our former New York Division stores, which were sold in October 1961, were included in that year's total. Sales increased 4% in areas in which we continued to operate in 1962.

Over a ten year period, the average increase of Safeway sales in our continuing areas has approximated 5% per year, just about the same as the national growth rate of U. S. grocery store sales. This compares with the 1¾% per year growth of population and with a net advance in food prices which has averaged only ½ of 1% per year.

Year-to-year increases in retail grocery store sales have almost exactly paralleled the expansion of our population's disposable income, despite a downward trend in the proportion of that income consumers spend for food. This is because more of the food con-





sumed is being purchased from grocery store outlets (as contrasted with specialty food stores, home grown, and other sources), and because more non-food household products are being merchandised through grocery supermarkets.

Safeway sales in both the United States and Canada increased from each quarter to the next during 1962.

Following the reduction in number of stores because of the disposition of New York area stores in 1961, a gradual upward trend in the number of Safeway stores was resumed in 1962. During the year, there was a net addition of 15 stores due to the opening of 121 modern supermarkets and the closing of 106 older, out-moded stores. This brought the year-end total of Safeway's retail grocery outlets to 2069, with 218 stores in Canada and 1851 stores in the United States.

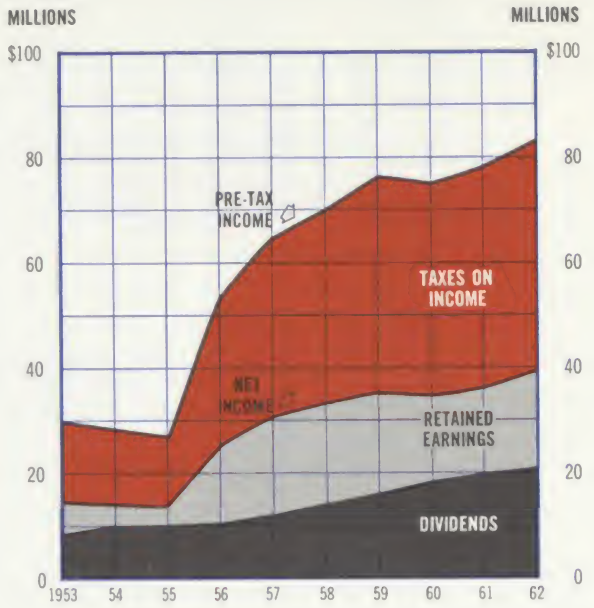
Modernization of older stores which were continued in operation, along with the building of larger, more attractive, and more efficient new facilities in strategic locations, resulted in a further improvement in the average sales per store. In 1962, this average reached $22,700 per store per week (nearly $1,200,000 per year). This represents about a 50% expansion in average sales per store over a ten-year period, during which time price advances accounted for only 5%.

Net Income

New record highs were registered in 1962 for total Safeway income—both before and after provisions for taxes on income levied by federal, state and provincial governments. New records were also established for net earnings per share of common stock (after preferred dividends) and for dividend payments to common stockholders.

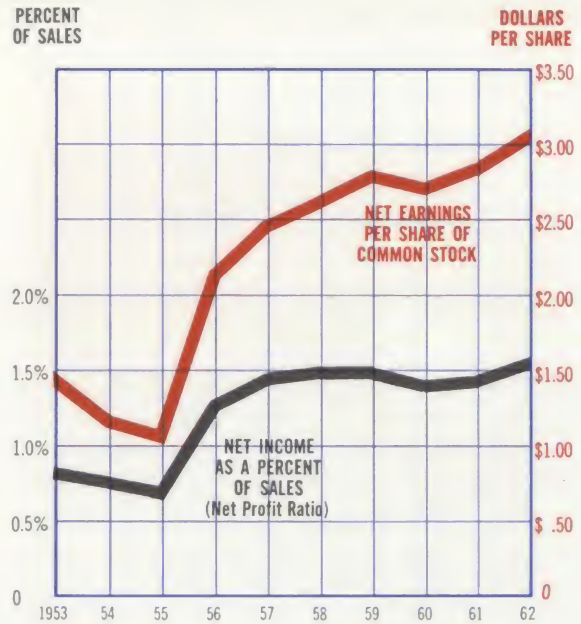
Safeway's *pre-tax* income rose by 6% from 1961 to reach $83.3 million in 1962. After provision of $44 million for taxes on corporate income, $39.3 million were left as *net* income after taxes, for dividends to stockholders and reinvestment in the business. In the distribution of *pre-tax* income, income tax payments to government have taken more than half—that is, have exceeded *net* income after taxes—in every year since 1951 (prior to that only in the World War II year, 1942, was the tax burden so heavy).

Income calculations for 1962 were affected by two adjustments made necessary by (1) the further decline in exchange value of the Canadian dollar, and (2) the "investment credit" to U.S. federal income taxes provided by the Revenue Act of 1962.



Safeway's 1962 *pre-tax* income before such adjustments amounted to $84.8 million, based on consolidation of our Canadian subsidiaries' operating results at dollar for dollar parity with U.S. funds. But the exchange value of the Canadian dollar relative to the U.S. dollar declined further during 1962, to $.9285 at year-end from $.9583 at the beginning of the year. Therefore, an additional reserve of $1.5 million was made, by a charge against 1962 income, to adjust our year-end assets in Canada to values based on prevailing exchange rates. This supplemented a similar reserve provision of $0.7 million in 1961. If the Canadian exchange rate now remains stable, a lesser adjustment will be required in 1963 than in 1962, to cover only such increases as occur in our Canadian assets. At such time as the Canadian dollar returns to or toward parity with the U.S. dollar, income credits will be available through liquidation of this reserve. After the Canadian exchange provision, Safeway's 1962 *pre-tax* income amounted to the $83.3 million shown on this page and elsewhere in this report.

A new provision included in the Revenue Act of 1962 permits reduction of federal income taxes *payable* with respect to a given year by means of an "investment credit" based on equipment and certain other depreciable assets newly acquired and put into use. For the year 1962, purchases of new equipment, etc., entitled Safeway to a total "investment credit" of about $2,050,000, of which 48%, or approximately $980,000, has been taken as a reduction of federal income tax expense for 1962 and the remaining 52% deferred to offset the effect on taxes of reduced depreciation



allowances. After the "investment credit" adjustment, the 1962 provision for taxes on income amounted to $44,055,000.

We made no changes in our depreciation rates as a result of the U.S. Internal Revenue Depreciation Guidelines and Rules issued in July, 1962. Adequate depreciation has consistently been provided and the rates have been approved by the Internal Revenue Service. Federal income tax returns have been audited and approved through 1960.

On a per share basis, earnings applicable to common stock (after preferred dividends) rose to $3.06 per share, exceeding the previous record high of $2.85 per share reached in 1961. The $3.06 per share net earnings for 1962 are after the $.12 per share reduction of income due to the Canadian exchange rate adjustment and the $.08 per share improvement of net earnings due to the portion of the "investment credit" taken as a reduction of tax expense in 1962.

In 1962, common stock dividends were paid each quarter at the rate of 40¢ per share, for a total payment of $1.60 per share for the year, compared with $1.52½ per share paid in the year 1961.

In 1962 the rate of *net* income (after taxes) as a percent of sales reached 1.56% (or 1.56¢ per $1.00 of sales). This is not an all-time high for Safeway, but is the best net profit ratio achieved since the 1930's when income taxes absorbed a much lesser portion of *pre-tax* income. Our *pre-tax* income rate on sales in 1962, at 3.32%, was the highest since the 1920's.

The 1962 net profit ratio of 1.56% represents a marked improvement for Safeway compared with ratios below 1% in the early 1950's, and it compares very favorably with recent net profit ratios of other major food chains.

Funds Generated From Operations

Like depreciation expense—in that such charges against income do not require expenditures of funds—the 1962 $1.5 million provision for decline in conversion value of Canadian assets may be regarded as an addition to net income in the determination of funds generated from operations. Of like effect are the deferral of $1.0 million of federal income tax payments representing 52% of the "investment credit," $0.3 million of deferred Dominion income taxes, and a $0.3 million addition to the reserve for self insurance. When these are added to $31.0 million depreciation charges and $39.3 million net income, Safeway's total 1962 "funds generated from operations" comes to $73.4 million, which is equivalent to about $5.85 per common share outstanding during the year.

These funds, plus $6.2 million from working capital, were used primarily for additions to fixed assets (a net increase of $46.7 million) and to pay preferred and common dividends ($21.0 million). The remainder of $11.9 million was used for reduction of long term debt, retirement of preferred stock and increase in other assets, principally investment in the English operation.

It is obvious from these figures that for a business to continue to modernize and grow, "replacement" funds reserved through depreciation charges based on historical or original cost must be supplemented by funds from other sources. For the past several years, improvements in earnings rates on expanding sales volume have permitted Safeway to provide such funds from retained earnings, while at the same time increasing current dividend payments to common stockholder owners of the company.

Financial Position

Working capital of $117.9 million as of December 29, 1962, although down from last year, was adequate for our needs. The ratio of current assets to current liabilities was 1.81 to 1 as compared to 1.89 to 1 a year ago.

Since 1955, both preferred stock and long term debt have been progressively reduced. At the end of 1962, the 4% preferred and 4.3% convertible preferred stock outstanding amounted to $21.4 million and long term

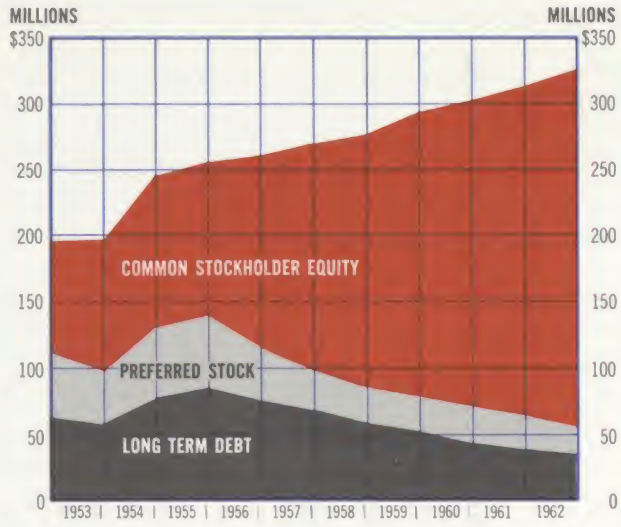
debt $32.7 million, both conservatively small in relationship to common stockholders' equity of $270.3 million.

Funds generated from operations have, since 1955, provided the primary source of capital to finance modernization and expansion of the company. Of course, the company's buy-build-sell-lease plan for stores, warehouses, and plants has contributed capital that otherwise would have to have been generated from within the company or obtained from other types of outside financing.

Expansion of common stockholders' equity in the company—both in the aggregate and in the proportion of total capital investment—was continued through 1962. At year-end, the equity of Safeway common stockholders reached $270 million, or 84% of the total $323 million capital investment.

The increase in total common stockholder equity has been accomplished without outside equity financing. The book value per common share has risen from under $10 a decade ago to $21.56 per share at the end of 1962.

Safeway Food Stores Limited, an English subsidiary of Safeway Stores, Incorporated, purchased the whole of the issued share capital of John Gardner (Super Markets) Limited and of Prideaux (London) Limited on September 30, 1962. Under the terms of the purchase agreement Safeway Stores, Incorporated retained ⅔ of the capital stock and John Gardner (London) Limited acquired ⅓ of the capital stock of Safeway Food Stores Limited. Because of the short time which has intervened between the acquisition of these operations and the date of this report, the investment in and advance to the subsidiary are carried at cost.



FINANCIAL STATEMENTS

ACCOUNTANTS' REPORT

PEAT, MARWICK, MITCHELL & CO.

To the Board of Directors and the Shareholders of Safeway Stores, Incorporated:

We have examined the consolidated balance sheet of Safeway Stores, Incorporated and subsidiaries as of December 29, 1962 and the related statement of income and retained earnings for the fifty-two weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statement of consolidated income and retained earnings present fairly the financial position of Safeway Stores, Incorporated and subsidiaries at December 29, 1962 and the results of their operations for the fifty-two weeks then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

San Francisco, California

February 20, 1963

Peat, Marwick, Mitchell & Co.

CONSOLIDATED

As of December 29, 1962

Assets

	December 29, 1962	December 30, 1961
Current Assets		
Cash	$ 54,920,780	$ 49,124,244
Accounts and notes receivable from sale of New York Division	—	8,982,714
Accounts and notes receivable—other	10,698,555	10,435,224
Merchandise inventories—at lower of cost or market	184,255,225	174,936,622
Prepaid expenses	7,930,363	7,939,735
Properties for development and sale within one year	5,863,289	12,580,661
Total Current Assets	263,668,212	263,999,200
Other Assets		
Investment in and advances to foreign subsidiary not consolidated—at cost	3,573,380	—
Notes receivable and miscellaneous investments	2,838,942	2,607,136
Unamortized debenture issue expense	220,207	301,568
	6,632,529	2,908,704
Property		
Land, buildings, equipment, etc.—at cost	369,787,822	337,809,963
Less depreciation	166,729,248	150,439,084
	203,058,574	187,370,879
TOTAL	$473,359,315	$454,278,783

Notes to Financial Statements

DEBENTURES PAYABLE: The debentures, redeemable at varying premium rates prior to maturity, consist of: parent $26,495,000 at 3.90% to 4.25% interest, maturing $5,000,000 annually, plus $1,000,000 sinking fund requirement annually to 1965 and then $3,000,000 annually to maturity in 1969; Canadian subsidiary, $2,266,000 at 4½% interest, maturing $200,000 annually, plus $120,000 sinking fund requirement annually to 1966 and then $360,000 annually to maturity in 1970 ($505,000 of debentures of the parent have been acquired to meet a portion of the 1963 and 1964 requirements and $494,000 of the Canadian subsidiary's have been acquired to meet the 1963 through 1965 and a portion of the 1966 requirements). Under the Indenture covering the parent's debentures, $90,166,193 of the retained earnings as of December 29, 1962 are restricted as to dividend payments and as to acquisition of its own stock. Certain other restrictions, including one upon creation of additional funded indebtedness, are imposed.

CAPITAL STOCK: The preferred stocks, par value $100 per share, consist of 4.30% convertible cumulative, authorized and outstanding 11,584 shares, and 4% cumulative, authorized 458,408 shares, outstanding 202,798 shares (after deducting 35,238 shares in treasury). Common stock, par value $1.66⅔ per share, consists of authorized 27,000,000 shares, outstanding 12,537,844 shares (after deducting 45,968 shares in treasury).

The terms of issue of the parent company's preferred stocks have sinking fund requirements which presently impose an annual retirement of 6,216 shares of the 4% preferred stock. Shares acquired and held as treasury shares, 35,238 at December 29, 1962, may be surrendered to meet the sinking fund requirements for 1963 through 1967 and part of 1968. The 4.30% preferred stock sinking fund requirement does not become operative until 1965. The preferred stocks are subject to redemption on call at premium which is now 50 cents per share on the 4% and $1.00 per share on the 4.30%.

Statement of Consolidated Income and Retained Earnings

For the 52 Weeks Ended December 29, 1962 (with Comparative Figures for the 52 Weeks Ended December 30, 1961)

	1962	1961
Sales	$2,509,644,155	$2,538,031,649
Cost of Sales	1,977,237,232	2,012,591,334
Gross profit	532,406,923	525,440,315
Operating and Administrative Expenses	446,717,106	444,351,247
Operating profit	85,689,817	81,089,068
Other Deductions		
Interest on debentures	1,359,158	1,588,016
Provision for decline in conversion value of Canadian assets	1,500,000	700,000
Other charges (income)—net	(495,625)	213,858
	2,363,533	2,501,874
Income before provision for income taxes	83,326,284	78,587,194
Provision for Federal, Canadian and other income taxes	44,055,000	41,985,000
Net Income	39,271,284	36,602,194
Retained Earnings at Beginning of Period	169,073,038	152,498,946
	208,344,322	189,101,140
Deduct		
Cash Dividends		
4.30% convertible preferred stock	52,758	63,367
4% preferred stock	850,445	957,524
Common Stock	20,051,784	19,045,044
Additions resulting from stock conversions and acquisitions	(17,159)	(37,833)
	20,937,828	20,028,102
Retained Earnings at End of Period	$ 187,406,494	$ 169,073,038

DEPRECIATION: The statement of income includes a charge for depreciation expense of $30,970,233 in 1962 and $31,434,-766 in 1961.

FEDERAL INCOME TAX: Under the Revenue Act of 1962, the Company has obtained an *investment credit* of $2,050,000 against its Federal income tax liability for 1962. The credit represents, with certain limitations, 7% of the amounts expended in 1962 for the acquisition of qualified facilities. For tax purposes, the cost base of such facilities is reduced by the amount of the credit for computation of annual depreciation charges. The Company has treated 48% of the investment credit as a reduction of Federal income tax expense for 1962 and has deferred the balance to offset the future effect of reduced tax depreciation.

CANADIAN SUBSIDIARIES: The accounts of the Canadian subsidiaries are consolidated as U. S. Funds at dollar for dollar with provision made for the decline in Canadian exchange below par by establishing a reserve through a charge to income.

CONTINGENT LIABILITIES AND COMMITMENTS:
(a) The liability upon completion of contracts for construction of buildings and purchase of land, not reflected in the financial statements, amounted to approximately $8,700,000.
(b) Leases are in effect on 2,631 properties of which 2,127 contain options to cancel. Should the Company exercise these options, it could be required to purchase 1,766 properties. The minimum annual rental for 1963 under all leases (some of which contain percentage of sales clauses) is approximately $46,000,-000; this amount decreases annually until the year 2008 as leases expire.
(c) The Company and certain other stockholders of Blue Chip Stamp Company are named and joined as defendants in three treble damage suits in which the plaintiffs seek to recover treble damages of $45,069,000, $5,430,000 and $1,200,000, plus attorneys' fees and costs of suit, for alleged violations of the Sherman Act. Counsel for the Company advises that, in their opinion, the defendants in each case have a substantial defense and, although they cannot predict the final outcome of this litigation, it is their opinion that the courts should sustain these defenses.

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